

ANNUAL REPORT OF THE KROGER GROCERY & BAKING COMPANY

FOR THE FISCAL YEAR 1938, ENDED DECEMBER 31, 1938

February 10, 1939.

TO THE SHAREHOLDERS:

This report is for Kroger's fiscal year beginning January 2, 1938, and ended December 31, 1938 (52 weeks). Comparative financial and operating statistics will be found, in condensed form, on a separate page of this report.

Sales for the fiscal year 1938 (52 weeks) were \$231,295,622 as compared to sales for 1937 (52 weeks) of \$248,444,230, a decrease of 7%.

Earnings (after provision for Federal taxes on Income) for the fiscal year 1938 were \$3,741,569.13, or \$2.05 per share, after preferred dividends, as compared to earnings for the fiscal year 1937 of \$2,950,339.96, or \$1.62 per share.

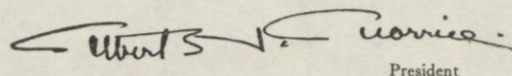
During 1938 there was distributed under the profit-sharing arrangements with certain key men the sum of \$337,834, and by special action of the Board of Directors the sum of \$200,000 to other key men and employees who are not under profit-sharing arrangements. The aggregate of these distributions amounted to \$0.30 per share. These distributions were in addition to the regular payments on sales and gross profits made to store managers and meat masters. No payments by way of bonus or profit-sharing were made to your President or Vice-President.

During the past year, your Company suffered from two long and expensive labor disputes. Combined, the losses incident to these disputes materially affected earnings.

On December 31, 1938, this corporation had no future commitments for the purchase and sale of commodities which would materially affect your Company's financial position or earnings. The rapidity of our inventory turnover will minimize the probability of inventory loss.

The year 1938 was a critical one for the industry of which your Company is a part. Increased Social Security taxes and wages, plus the extension of supermarket competition, made profitable operation difficult. The fact that your Company was able to improve earnings in 1938 was due to the cohesiveness and cooperation of our personnel, to whom go our sincere thanks.

Respectfully submitted,



President

CONSOLIDATED BALANCE

ASSETS

Cash on hand and deposits in banks		\$14,889,286.86
Notes and accounts receivable, less allowance for losses:		
Customers, including welfare associations and relief agencies	\$ 848,091.44	
Employees	11,962.26	
Vendors and others	<u>394,864.89</u>	1,254,918.59
Inventories of merchandise, at lower of cost or market		18,851,392.89
Prepaid insurance, rent, taxes, etc.		<u>776,670.87</u>
TOTAL CURRENT ASSETS		35,772,269.21
 Deferred claims receivable, less allowance for losses		 196,424.78
Investments, at ledger values:		
Stock of subsidiary company, not included in consolidation, at cost	6,068,762.49	
Other stocks, bonds, mortgage notes, etc.	<u>113,919.94</u>	6,182,682.43
Common stock of company held for sale to employees (8896 shares)		97,157.05
Cash, bonds and certificates of deposit and dividend accumulation held for use and benefit of employees under group insurance plan (Contra)		282,411.36
 FIXED ASSETS:		
Land and buildings, as appraised by The American Appraisal Company, Harry S. Cutmore and Associates, C. G. Richardson, C. E., and the real estate depart- ment of the company, as at January 1, 1933, with subsequent additions, at cost:		
Land		1,341,545.23
Buildings	\$ 8,936,789.60	
Machinery and equipment, as appraised by The American Appraisal Company, as at January 1, 1933, with subsequent additions, at cost	18,279,735.06	
Automotive equipment, etc., at cost	<u>3,118,802.35</u>	
	<u>30,335,327.01</u>	
Less, allowance for depreciation and obsolescence	<u>16,935,317.49</u>	
	<u>13,400,009.52</u>	14,741,554.75
Store and general supplies and deferred charges to future operations		<u>632,142.16</u>
		<u><u>\$57,904,641.74</u></u>

In accordance with the Company's consistent practice the balance sheet of the Piggly Wiggly Corporation and related statements of income and surplus are not included in the consolidated statements of The Kroger Grocery & Baking Company. The proportion of the undistributed profits accrued on the capital stock owned of this subsidiary company aggregates \$56,467.73 since the date of acquisition of the stock in 1928.

LIABILITIES

Accounts payable, vendors, etc.....	\$ 4,660,540.93
Accrued expenses, taxes, etc.....	2,089,467.22
Provision for Federal taxes, current and prior years.....	1,219,558.42
Dividends payable.....	<u>1,600.50</u>
TOTAL CURRENT LIABILITIES	7,971,167.07

Reserve for self insurance and contingencies.....	374,326.87
Amounts due employees representing dividends and premium refunds on group insurance held by company for the use and benefit of employees (Contra).....	282,411.36

CAPITAL AND SURPLUS

Preferred capital stock outstanding:

First preferred, 6% par \$100.....	\$ 50,700.00	
Second preferred, 7% par \$100.....	<u>48,000.00</u>	\$ 98,700.00

Common capital stock without par value:

(Authorized 3,000,000 shares)

Shares

Issued.....	1,848,278	
Less, in treasury.....	<u>17,393</u>	
Outstanding.....	1,830,885	\$33,398,249.80

Capital surplus.....	1,047,760.62	
Earned surplus, as annexed.....	<u>14,732,026.02</u>	49,276,736.44
		<u>\$57,904,641.74</u>

THE BOARD OF DIRECTORS,
THE KROGER GROCERY & BAKING COMPANY,
CINCINNATI, OHIO.

We have made an examination of the consolidated balance sheet as at December 31, 1938, and of the related consolidated statement of income and surplus for the year 1938 of The Kroger Grocery & Baking Company and subsidiaries. In connection therewith, we examined or tested accounting records of the Companies and other supporting evidence and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the consolidated balance sheet and the related consolidated statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, their position at December 31, 1938, and the results of their operations for the year then ended.

LYBRAND, ROSS BROS. & MONTGOMERY,

Accountants and Auditors.

Cincinnati, Ohio.
February 7, 1939.

THE KROGER GROCERY & BAKING COMPANY

Executive Offices: 35 East 7th St., Cincinnati, Ohio

OFFICERS

ALBERT H. MORRILL, *President and General Manager*

CHARLES M. ROBERTSON,
Vice-President and Treasurer

JOHN H. SADLER,
Secretary and Assistant Treasurer

F. M. GRIEME, *Assistant Treasurer*

T. S. BURNS, *Assistant Secretary*

J. M. MARKLEY, *Assistant Secretary*

DIRECTORS

BOLTON S. ARMSTRONG, Cincinnati
President, The Mabley and Carew Co.

L. J. HUERKAMP, Cincinnati
Branch Manager, The Kroger Grocery & Baking Company

WALTER A. DRAPER, Cincinnati
President, The Cincinnati Street Railway Company

A. T. KEARNEY, Chicago
McKinsey, Wellington & Co.

CHARLES W. DUPUIS, Cincinnati
President, The Central Trust Company

CHESTER F. KROGER, Cincinnati
Capitalist

HARRY J. GILLIGAN, Cincinnati
John J. Gilligan & Son

ALBERT H. MORRILL, Cincinnati
President, The Kroger Grocery & Baking Company; Piggly Wiggly Corporation

G. A. GINTER, Cincinnati
Member Firm, Nichols, Wood, Marx & Ginter

CHARLES M. ROBERTSON, Cincinnati
Vice-President and Treasurer, The Kroger Grocery & Baking Company

JOHN M. HANCOCK, New York
Partner, Lehman Brothers

JOHN R. RONEY, Chicago
Capitalist

JOHN H. SADLER, Cincinnati
Secretary and Ass't Treas., The Kroger Grocery & Baking Company

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York

CONSOLIDATED INCOME AND EARNED SURPLUS ACCOUNT

for the period from January 2, 1938 to December 31, 1938

Net sales.....	\$231,295,621.66
Cost of sales, including warehousing and transportation expenses.....	183,233,898.18
	<u>48,061,723.48</u>
Operating, general and administrative expenses, excluding depreciation.....	41,793,131.01
Profit from operations before allowance for depreciation.....	6,268,592.47
Allowance for depreciation.....	2,176,493.90
	<u>4,092,098.57</u>
Interest earned, less interest paid.....	17,195.16
Profit from operations and other income, excluding income from subsidiary companies and before provision for Federal income taxes.....	<u>4,109,293.73</u>
Net earnings of subsidiary companies for fiscal year (includes dividends of \$135,756.80 received from a subsidiary, the Piggly Wiggly Corporation, not included in the consolidated statements. The equity of the Company in the net earnings of this subsidiary for the year 1938 exceeded the dividends received in 1938 from this subsidiary by \$300.41).....	337,775.40
Profit before provision for Federal income taxes.....	4,447,069.13
Provision for Federal income taxes.....	705,500.00
	<u>3,741,569.13</u>
Net income.....	
Earned surplus, January 2, 1938.....	14,458,637.99
	<u>18,200,207.12</u>
Deduct:	
Cash dividends paid in the fiscal period ended December 31, 1938:	
First Preferred \$6.00 per share.....	\$ 3,042.00
Second Preferred 7.00 per share.....	3,360.00
Common 1.90 per share.....	3,461,779.10
	<u>3,468,181.10</u>
Earned surplus, December 31, 1938.....	<u>\$ 14,732,026.02</u>

FINANCIAL AND OPERATING STATISTICS for the fiscal years 1931 to 1938, inclusive

	1931	1932	1933	1934	1935	1936	1937	1938
PROFIT AND DIVIDENDS								
Final Net Profit—Dollars per Share. —Total Dollars.....	1.46 2,731,128	1.47 2,740,867	2.51 4,546,203	2.31 4,198,241	2.25 4,110,926	1.91 3,487,832	1.62 2,950,340	2.05 3,741,569
Cash Dividends Paid Per Common Share.....	1.00	1.00	1.00	1.80	1.60	1.90	1.60	1.90
STOCK								
Number Shares Common Stock outstanding with Public—End of Year. Number Shareholders—End of Year.	1,813,486 ⁹⁰ 18,856	1,811,091 ⁹⁰ 20,680	1,792,366 ⁹⁰ 19,605	1,810,293 ⁹⁰ 20,633	1,821,989 22,537	1,821,989 24,535	1,821,989 26,226	1,821,989 25,983
SALES								
Total Sales—Dollars.....	244,371,147	213,159,743	205,691,715	221,175,330	229,907,884	242,273,498	248,444,230	231,295,622
Average Retail Sales— Dollars Per Store Per Week.....	941	848	861	968	1,018	1,060	1,122	1,091
Index Numbers—Base, 1930=100: Total Sales—Dollars.....	91	80	77	83	86	91	93	87
Retail Sales Per Store Per Week.....	99	89	90	101	107	111	118	114
Retail Food Prices Bureau of Labor Statistics (U. S. Dept. of Labor)	82	69	67	74	81	82	85	79
Tonnage Sales—Total.....	111	116	116	111	107	110	109	110
—Per Store Per Week.....	120	130	135	136	132	135	138	145
STORES								
In Operation at End of Year:								
Grocery.....	4,884	4,737	4,400	4,352	4,250	4,212	4,108	3,992
Meat.....	2,869	2,845	2,767	2,748	2,653	2,626	2,482	2,278
Average Number Operated During Year:								
Grocery.....	4,980	4,816	4,573	4,356	4,286	4,239	4,169	4,032
Meat.....	2,889	2,877	2,815	2,745	2,694	2,655	2,547	2,339
Licensed Piggly Wiggly Stores At End of Year.....	2,558	2,143	1,979	1,836	1,544	1,398	1,230	1,162
EMPLOYEES								
Number Full-Time Employees at End of Year.....	18,906	18,367	20,872	22,023	21,611	21,429	21,515	20,498
BALANCE SHEET STATISTICS								
Current Ratio.....	4.27	4.81	4.60	4.35	4.85	4.22	4.63	4.49
Cash, U. S. Government and Municipal Securities:								
Dollars.....	7,884,339	12,035,381	9,890,785	9,091,800	10,837,664	9,943,788	12,123,820	14,889,287
Ratio to Current Liabilities.....	1.27	2.00	1.48	1.21	1.57	1.20	1.64	1.87
Inventories—Dollars.....	16,443,597	14,589,421	18,627,029	20,916,910	20,129,097	22,692,864	19,985,345	18,851,393
Fixed Assets in Percent of Total Assets.....	39	32	29	28	28	27	27	25
Net Working Capital.....	20,278,307	22,920,966	24,138,697	25,202,194	26,550,609	26,734,286	26,878,892	27,801,102